

1997-98

TRMA

ANNUAL

REPORT





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Tire Recycling Management Association of Alberta

P.O. Box 189
Edmonton, Alberta
T5J 2J1

Toll Free: 1-888-999-8762
Telephone: (403) 990-1111
Facsimile: (403) 990-1122
Web Site: www.trma.com
E Mail: trma@trma.com





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I. Letter to the Minister

The Honourable Ty Lund
Minister of Environmental Protection
323 Legislative Building
Edmonton, Alberta T5K 2B6

Dear Mr.Lund:

On behalf of the Board of Directors of the Tire Recycling Management Association of Alberta (TRMA), in accordance with section 4 of the Tire Recycling and Management Regulation (Alta. Reg. 206/96), I enclose the Annual Report for the fiscal year April 1, 1997 to March 31, 1998.

Yours truly,



Ken Albrecht
Chairman
Tire Recycling Management Association of Alberta



II. Chairman's Report

10 MILLION TIRES RECYCLED . . . AND COUNTING!

1997/98 was truly a tremendous year for tire recycling in Alberta. We saw the achievement of a major milestone – a total of 10 million tires have been recycled since Alberta's tire recycling initiative began five years ago.

It may be difficult to picture 10 million tires, but the two main benefits for Albertans of a successful recycling program are clear.

- The mountains of old tires that had piled up across Alberta are virtually gone, and with them the fire and health hazards they present. (We estimate that this has also saved Albertans \$70 million in the total cost of landfill space that the tires would have used.)
- A steady stream of valuable new uses for recycled tires continues to emerge. Initially, the only way to use large volumes of old tires was to burn them as fuel. This stopped in August 1995, as more valuable uses developed that provide greater benefit for Albertans.

There are other ways to visualize the burden that has been removed from our landfills and our environment. 10 million tires would:

- lined up end to end, reach across Canada from Victoria, B.C. to St. John's, Nfld.;
- stacked one on top of each other, make a pile five times as high as the space shuttle orbits, or as high as 10,000 Calgary Towers!

The TRMA would like to acknowledge Premier Ralph Klein, who as Minister of Environmental Protection in 1992 was the architect of Alberta's tire recycling success story, and Minister of Environmental Protection Ty Lund, for their commitment and support through the difficult start-up period of Alberta's tire recycling program and industry.



Albertans can take pride in their contribution to a cleaner environment through the responsible recycling of scrap tires. And the Government of Alberta can take credit for putting in place a new model for environmental stewardship that is being recognized throughout North America for establishing the three elements that are fundamental for a successful tire recycling strategy:

- **Legislated Retail Fee** – The cost of recycling tires is paid through a \$4 Advance Disposal Surcharge (ADS) remitted by tire and vehicle retailers on the sale of eligible new tires.
- **Dedicated Fund** – The fees are managed in a separate fund to ensure the money is used for the intended purpose – tire recycling.
- **Stakeholder Management Board** – The Provincial Government has delegated the responsibility for administration of the dedicated fund to an independent body representing those directly affected by the scrap tire issue.

The Board of Directors of the TRMA consider their role as one of public trust for the management of the funds collected to solve Alberta's scrap tire challenge. To that end, a tire recycling funding program has been put in place that challenges Alberta's tire recycling industry to develop new and better uses for eligible recycled tires. Tire recyclers receive no loans, loan guarantees or other "up front" money – they receive funding only for eligible tires which have been successfully recycled and used in an acceptable way.

- The funding program is designed in a way that encourages the industry to develop new and more valuable uses of recycled material and thereby maximize the benefits to Albertans of tire recycling. The funding provided through the TRMA provides a crucial element of stability to the volatile and difficult tire recycling industry.

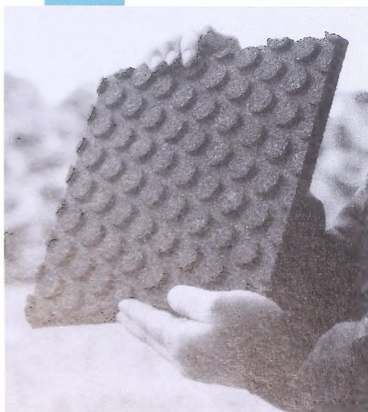


Innovation has been the key to success – whether it be in the efforts and risk-taking by Alberta entrepreneurs, or in the willingness of municipal authorities and others to try new uses for recycled tire material, or in the efforts of the TRMA to maintain the compatibility of the funding programs with the changing realities of tire recycling.

Accountability has been a foundation of this success – whether it be in the responsible way tire and automotive retailers and their customers meet their obligation to remit the \$4 surcharge, or in the key role which municipal landfill authorities continue to play in tire collection, or in the accountability of the TRMA to its member stakeholder groups, the Provincial Government and all Albertans.

The first five years for Alberta's tire recycling program have been extremely challenging and rewarding. Over the next five years we will continue to see tremendous challenges, rapid change and successes. We look forward to managing the tire recycling strategy in the best interest of Albertans.

On behalf of the TRMA Board of Directors, I would like to present our 1997/98 Annual Report as a key component in ensuring that we are accountable in meeting the mandate we have been given.



Ken Albrecht
Chairman
Tire Recycling Management Association of Alberta

III. Background

Each year, Albertans discard over two million scrap tires. In the late 1980s and early 1990s, concern was growing with the piles of scrap tires that were accumulating across Alberta and with the potential liability they presented in terms of fire, health and environmental hazards, and landfilling costs. The disastrous tire pile fire in 1990 at Hagersville, Ontario, brought the extent of these potential hazards into focus.

In September 1992 the Government of Alberta, through then Environment Minister Ralph Klein, established the \$4 Advance Disposal Surcharge (ADS) that is remitted at the retail level on the sale of eligible new tires (tires intended for use on vehicles licensed for highway use). The Tire Recycling Management Board (TRMB) was established to collect the ADS and manage the revenues to develop solutions for Alberta's scrap tire challenge and encourage the recycling of scrap tires into value-added end uses.

In order to administer the ADS, a revenue collection system was implemented to encompass over 1,600 tire and vehicle retailers who remit the \$4 ADS collected on the sale of new tires. In addition, a secure and effective fund management and investment system has been implemented.

From the outset, there was the daunting task of finding responsible end uses for millions of scrap tires. There was virtually no tire recycling industry, tire collection system, or markets for recycled rubber to deal with the growing mountains of tires. A new funding strategy was developed to support the processing of scrap tires through a combination of competitive tenders and programs, based on the following principles.

- “Pay-for-results” funding - Funding is paid once tire material is successfully recycled, with no start-up grants, loans or loan guarantees.



- “Value-added” recycling - While early efforts were aimed at creating high-volume and low-cost solutions, the strategy has encouraged the development of higher-value recycled products as the the scrap tire processing industry has matured.

In October 1996, the TRMB evolved into the Tire Recycling Management Association of Alberta (TRMA). The TRMA is a “Delegated Administrative Organization”, one of the Provincial Government’s new ways to provide greater stakeholder responsibility and industry stewardship for environmental issues. The TRMA is a not-for-profit association incorporated under the Societies Act. Its membership consists of the same 10 organizations that were represented on the TRMB Board of Directors. The principles, policies and business plan of the TRMA is consistent with that of the TRMB.

The TRMA works cooperatively with stakeholders involved in the scrap tire challenge, including tire retailers, vehicle dealers, local governments, waste management authorities, fire and health authorities and landfill operators. At the same time, the TRMA works with tire recyclers to encourage the development of the tire recycling industry, as well as supporting research and development of new recycling technologies and end uses.



IV. 1997/98 Highlights

The process of transforming the durable and complex materials that make up scrap tires into a safe and value-added resource has presented many challenges to the emerging scrap tire recycling industry in Alberta.

The path from zero to 10 million tires recycled in five years encompasses tremendous effort and many decisions, some good and some not, by a lot of people. But the cumulative result is clearly successful, and one in which all parties and Albertans in general can take credit and satisfaction.

Tire Recycling Industry and Markets

1997/98 saw significant changes as markets for exciting new value-added products opened up and as the number of available scrap tires declined. As a result, the tire recycling industry has had to adjust to a rapidly changing demand for different products and, at the same time, a reduced feedstock of scrap tires.

The most obvious change was a reduction in the volume of available scrap tires as the backlog of old tires was recycled. Just under 3 million tires were recycled in 1997/98 compared to 4 million the previous year. But this is good news, reflecting the decline of the backlog of tires and not a decline in markets or in the industry's productivity. The TRMA three-year Business Plan projects annual tire recycling volumes to continue to move downward towards a "steady-state" inflow of approximately two million tires as the backlog is eliminated.

At the same time, unanticipated new markets opened up opportunities for additional value-added processing. As a result, 80 percent of the recycled material produced in 1997/98 was used either in Alberta end-use projects or in Alberta-made products – almost twice as much as originally projected.



Finding New Uses for Old Tires Meant a Cleaner Environment for Us All

Scrap Tires



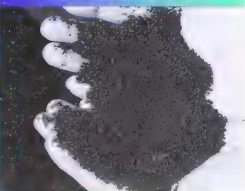
Shred



Civil Engineering



Crumb



Loose Crumb



Molded Crumb



Alberta's Environment Gets Good Mileage out of Your \$4

The extent of change and growth in new markets can be best illustrated by the progression over the last five years of major uses for recycled tire material, from the use of tires as fuel, to civil engineering uses, to the new use of rubber crumb in playgrounds, sports fields, running tracks and manufactured rubber products (including rubber matting, flooring products and dairy mattresses).

- Initially tires were burned whole, with no processing, in Alberta cement kilns. This stopped in August 1995.
- Next, Alberta's first tire processing companies shredded tires into 2" chips for export to the U.S. as a cleaner replacement fuel for coal. The TRMA ceased funding tire shred exports in 1996.
- Then, a major recycling breakthrough – the use of tire shred as a value-added material in civil engineering projects in Alberta. Fifty percent of tires recycled in 1997/98 were used in civil engineering projects in Alberta.
- At the same time, the next stage of value-added processing was developing – the processing of shred into rubber crumb (smaller rubber particles ground from shred with the steel and fibre removed). Forty-two percent of tires recycled in 1997/98 were processed to rubber crumb, with half of that being used by Alberta manufacturers and the remainder exported to other Canadian and U.S. manufacturers.
- For the future, the market for consumer products manufactured from rubber crumb continues to grow. And the new uses of loose rubber crumb in playgrounds, golf courses and sports fields has real potential. The TRMA also supports research into new recycling technologies, such as using rubber crumb in asphalt to improve the performance of Alberta's highways.

As each stage progresses, the industry moves closer to economic viability. However, the total cost of recycling scrap tires – including collecting them from throughout the province, processing them to shred and then to crumb, and marketing products to the marketplace – are still much greater than the revenues tire recyclers receive from the sale of product. For this reason, the provision of funding incentives to the tire recycling industry will be necessary for the foreseeable future.

Special Projects

Innovation and ingenuity have been keys to the successes reached thus far in Alberta's scrap tire recycling industry. Efforts are ongoing to improve the collection and processing of tires, and to develop new uses and markets for rubber crumb material.

- Athletes are seeing the benefits of rubber crumb in running tracks and sports fields. The main running track at the 1997 Alberta Summer Games in Lloydminster was made using Alberta rubber crumb, as well as the 1997 Canada Summer Games track in Brandon, Manitoba.
- A pilot project was developed to assess the costs and logistics of collecting and recycling large agricultural and construction tires that remain in landfills. (These types of tires are not eligible for funding under current TRMA programs.)
- Both the City of Calgary and the Peace Region held Used Tire Round-Ups in 1997/98. This not only provided an opportunity for Albertans to take their old tires laying around to a central collection point, but also aided in determining additional numbers of discarded tires in the province.



- The TRMA is in a multi-year partnership with the Prairie Turfgrass Research Centre at Olds College to investigate the potential for using rubber crumb to enhance grass and plant growth. The crumb is being assessed as a way to encourage the growth of healthier and more resilient grass in golf course greens, sports fields and playgrounds, and as a way to improve potting mediums used in the horticultural industry.
- A research project with the University of Calgary's Civil Engineering Department is experimenting with better ways to incorporate recycled rubber crumb in asphalt to improve roads.
- The University of Alberta has commenced two projects: examining the geotechnical properties and new civil engineering applications of shred and crumb material; and, investigating the reuse of the steel fibres recovered from recycling tires, for specialized concrete surfaces.

TRMA Operations

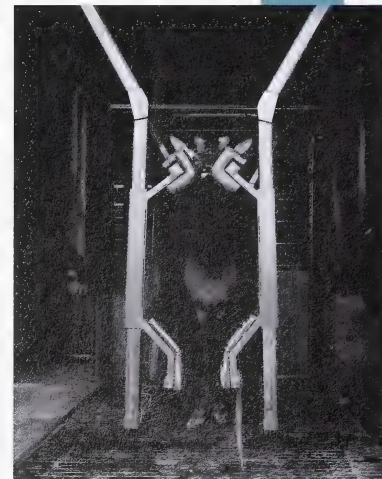
The policies and operations of the TRMA are also evolving to meet the changing realities of tire recycling in Alberta. Not only do we have to adjust to new circumstances, but we are now able to build on the experience of five years and 10 million tires recycled.

To meet the TRMA's responsibility as a "Delegated Administrative Organization" for the stewardship of tire recycling in Alberta, we have implemented a comprehensive "accountability framework". The framework consists of 15 elements which the TRMA must meet as one of the goals in its Business Plan to ensure it fully delivers on its public trust.

Of particular note under the accountability framework are enhanced measures in the area of revenue collection, funding strategy and investment management.



- The TRMA has further enhanced its compliance system to ensure full collection of surcharge revenues.
- The TRMA is in the process of reviewing its funding programs. These are the primary means through which the TRMA achieves the tire recycling goals in its Business Plan.
- The TRMA has developed a comprehensive fund management plan to ensure that the funds necessary for future recycling obligations and needs are properly assembled, managed, preserved and utilized over the coming years until Alberta's tire recycling industry is fully self-sustaining.
- There is widespread concern that many computer systems will not operate properly in the year 2000 because of the way they recognize dates, unless modifications are made. The TRMA recognizes the need to ensure its operations will not be adversely impacted by the "Year 2000" situation, and has initiated a program to resolve the issue. The TRMA is currently in the process of upgrading its business systems to Year 2000 compliant software. In addition, the TRMA plans to survey key registrants and processors to identify potential Year 2000 problems and determine the appropriate actions to be taken. The TRMA does not expect the costs directly associated with Year 2000 compliance will have a material impact on its financial position or its operations.



V. Mandate

The TRMA is a “Delegated Administrative Organization” (DAO) – one of the new forms of governance being used by the Government of Alberta to allow industry and stakeholders to be accountable for environmental stewardship initiatives. The TRMA is a not-for-profit association incorporated under the Societies Act that is responsible for fulfilling the following legislative mandate.

- The Environmental Protection and Enhancement Act (Part 9 - Waste Minimization, Recycling and Waste Management) provides the authority to make scrap tires a designated material, to collect a disposal surcharge on tires, and to establish an industry-based fund to be managed by a body charged with the administration of the fund.
- The Tire Recycling and Management Regulation (Alta. Reg. #206/96) establishes the Tire Recycling Management Association of Alberta and provides authority to levy a \$4.00 Advance Disposal Surcharge on the sale of specified new tires.
- In accordance with section 165(1) of the Act, section 5(1) of the Regulation also defines that the Tire Recycling and Management Fund shall be used to provide or pay for any or all of the following:
 - establishing and administering a scrap tire waste minimization and recycling program;
 - education programs for the purpose of the scrap tire minimization and recycling program;
 - expenditures incurred in the collection, transportation, storage, processing and disposal of scrap tires;
 - research and development activities related to scrap tire management;
 - promotion and development for marketing the products of scrap tire recycling.



The TRMA reports annually to the Minister of Environmental Protection on the fulfillment of its legislated mandate through the Business Plan and Budget, and the Annual Report and audited Financial Statements.

Mission Statement

To responsibly steward scrap tire resources for the best interests of Albertans.

Principles

- To build proactive partnerships.
- To develop economical and environmentally sound strategies.
- To implement those strategies in an efficient and effective manner.

Core Businesses

- *Management of Scrap Tires*
Develop efficient, effective, economic and environmentally sound solutions to deal with Alberta's scrap tires.
- *Scrap Tire Recycling Program*
Provide funding to the scrap tire processing and recycling industry, for scrap tire material processed and used in an environmentally acceptable manner.
- *Administer the Tire Recycling and Management Fund*
Effectively manage resources to fulfill the TRMA's mandate.



VI. Business Plan

The TRMA uses a three-year Business Plan to fulfill its legislative mandate to collect the \$4 surcharge and use the revenues to encourage the recycling of Alberta's scrap tires. The current Business Plan is based on four Goals, each with one or more specific measurable performance targets, relating to tire recycling volumes, effective management and accountability.

Following are a Summary of Goals, a graphical report on the Performance Measures of progress made towards each of these Goals, and an outline of the strategies the TRMA uses to pursue the Goals.

Summary of Goals

- Goal 1: Maximize the number of scrap tires that are processed.
- Goal 2: Maximize the amount of value-added processing in Alberta.
- Goal 3: Maximize the amount of recycled tire material that is used in Alberta.
- Goal 4: Ensure full accountability for the Tire Recycling Management Association



Goal 1: Maximize the number of scrap tires that are processed.

Performance Measure 1.1:

The total number of eligible scrap tires that are recovered and processed annually by the tire recycling system, from the available annual inflow and any backlog.

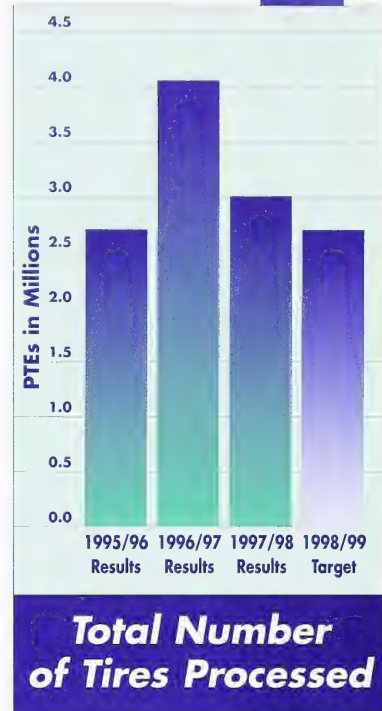
1997/98 Results: 3.0 million PTEs *

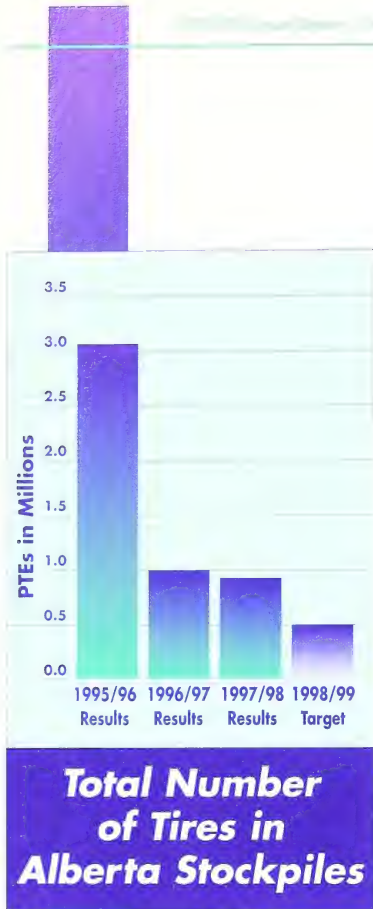
Fiscal 1995/96 Results	2.70 million PTEs
Fiscal 1996/97 Results	4.04 million PTEs
Fiscal 1997/98 Results (Target)	3.00 million PTEs (3.25 million)
Fiscal 1998/99 Target	2.70 million PTEs
Fiscal 1999/00 Target	2.30 million PTEs
Fiscal 2000/01 Target	2.30 million PTEs

Comment:

- The declining volumes reflect the elimination of the backlog, not the decline in markets or industry productivity.
- The “steady-state” inflow is projected to be as high as 2.3 million PTEs [excluding ineligible tires, e.g. Off Road Tires (OTRs)].

* PTE: Because tires vary in size and weight, the TRMA measures the amount of tires or tire material using a standardized unit – the Passenger Tire Equivalent (PTE) – to represent an “average” car tire. One PTE equals 10 kgs. of tire material (eg. there are 100 PTEs in one tonne of tires).





Performance Measure 1.2:

The estimated number of scrap tires remaining in stockpiles.

1997/98 Results: 900,000 PTEs

* Fiscal 1995/96 Results	3.10 million PTEs
Fiscal 1996/97 Results	1.00 million PTEs
Fiscal 1997/98 Results (Target)	900,000 PTEs (0) *
Fiscal 1998/99 Target	500,000 PTEs
Fiscal 1999/00 Target	500,000 PTEs
Fiscal 2000/01 Target	500,000 PTEs

* The large difference in the 1997/98 Target (0) and results was in part due to the definition of "Stockpiles" being expanded to include processor inventories and private stockpiles, in addition to stockpiles in public landfills.

Comments:

- A priority of the TRMA is to ensure that tires are removed equitably from throughout the province. This requires that tires not be allowed to build up excessively in landfills or stockpiles that are more difficult or costly to collect.
- There will always be some tires in landfills as part of the on-going process of tires being temporarily stored until collected for processing by recyclers.

Goal 2: Maximize the amount of value-added processing in Alberta.

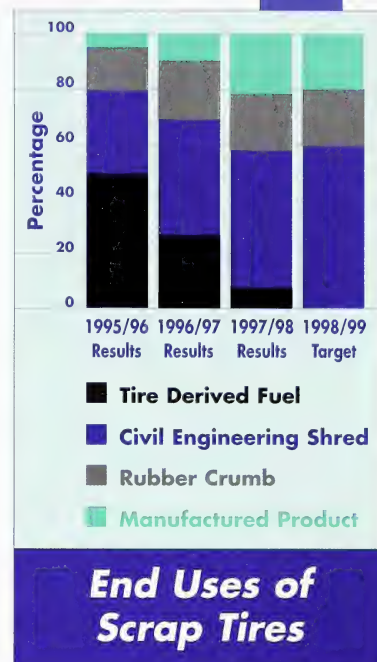
Performance Measure 2.1:

Proportion of the total number of scrap tires processed annually that goes into manufactured product, rubber crumb, civil engineering shred and tire-derived fuel, respectively.

1997/98 Results:

<i>Manufactured Product</i>	21%
<i>Rubber Crumb</i>	21%
<i>Civil Engineering Shred</i>	50%
<i>Tire-Derived Fuel</i>	8%

	Manufactured Product	Rubber Crumb	Civil Engineering Shred	Tire-Derived Fuel
Fiscal 1995/96 Results	4%	11%	32%	48%
Fiscal 1996/97 Results	9%	21%	43%	27%
Fiscal 1997/98 Results	21%	21%	50%	8%
(Target)	(9%)	(21%)	(40%)	(30%)
Fiscal 1998/99 Target	20%	20%	60%	0%
Fiscal 1999/00 Target	22%	23%	55%	0%
Fiscal 2000/01 Target	25%	25%	50%	0%



Comments:

- The TRMA believes that the pursuit of value-added products and markets is ultimately the best way to achieve a self-sustaining industry.
- The strategy reflects that there is still need for lower-value "backstop" solutions that can deal with the backlog while value-added uses and markets gradually develop, as encouraged through TRMA funding programs.

Goal 3: Maximize the amount of recycled tire material that is used in Alberta.

Performance Measure 3.1:

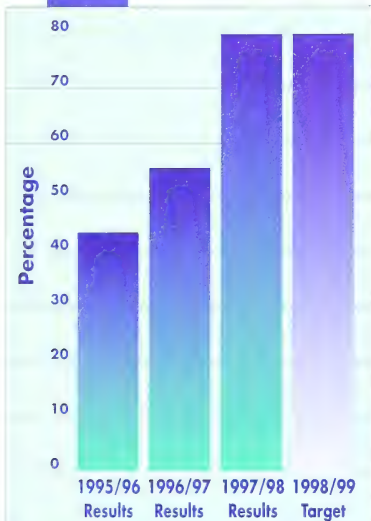
Proportion of the total number of scrap tires processed annually that goes into Alberta end uses or Alberta-made products.

1997/98 Results: 79%

Fiscal 1995/96 Results	43%
Fiscal 1996/97 Results	56%
Fiscal 1997/98 Results (Target)	79% (50%)
Fiscal 1998/99 Target	80%
Fiscal 1999/00 Target	82%
Fiscal 2000/01 Target	84%

Comments:

- Because public funding supports tire recycling, the TRMA wants to keep as much of the benefit of that funding in Alberta as possible, but without compromising the industry's pursuit of value-added markets (Goal 2), whether in Alberta or export markets.



Scrap Tires Used in Alberta

Goal 4: Ensure full accountability for the Tire Recycling Management Association.

Performance Measure 4.1:

Establish and report against a comprehensive accountability framework.

1997/98 Results:

Develop a complete set of accountability policies and requirements to be met annually.

- Assessment Operations Policy
- Audit Committee Policy
- Board Governance Policy
- Communications Operations Policy
- Conflict of Interest Policy
- Corporate Operations Policy
- Enforcement Operations Policy
- Financial Operations Policy
- Framework Policy
- Information Management Policies
- Investment Fund Management Policy
- Personnel Operations Policy
- Recycling & Disposal Operations Policy
- Remuneration & Expense Policy
- Surcharge Operations Policy

Comments:

- The TRMA considers its mandate a public trust and has developed an accountability framework to ensure that it meets this trust through accountability to its member organizations, the Provincial Government and all Albertans.
- The TRMA is committed to regularly reporting to Albertans on its performance and accountability.



Performance Measure 4.2:

The amount of funds held in reserve to process all eligible tires.*

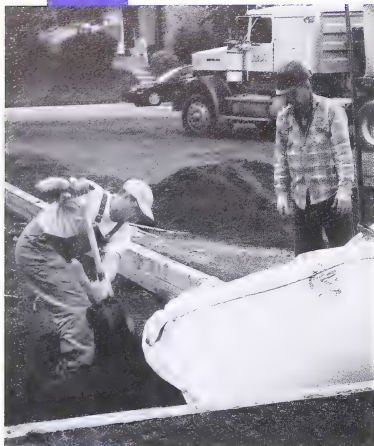
1997/98 Result: 71%

		Fund Balance	Fund Required
Fiscal 1995/96 Results	60%	20,600,000	34,300,000
Fiscal 1996/97 Results	60%	20,600,000	34,300,000
Fiscal 1997/98 Results (Target)	71% (69%)	24,500,000	34,300,000
Fiscal 1998/99 Target	72%	24,760,000	34,300,000
Fiscal 1999/00 Target	79%	26,985,000	34,300,000
Fiscal 2000/01 Target	85%	29,210,000	34,300,000

Comments:

- The \$4 per tire surcharge is collected “in advance” on the sale of new tires. One of the goals of the TRMA is to ensure that there will be sufficient monies in the Tire Recycling Management Fund to deal with those tires on which the surcharge has been collected but which are still in use. This is done to ensure that, in the future when these current tires are discarded as scrap tires, there will be adequate funds in reserve to have these tires recycled.
- The TRMA has developed a comprehensive fund management plan and process to ensure that the funds necessary for future recycling obligations and needs are available over the coming years until tire recycling in Alberta is fully self-sustaining. In conjunction with independent advisors, the TRMA has established a comprehensive Investment Charter, which sets out the policies, goals and objectives for management of the Fund. Professional Investment Advisors are engaged to manage the Fund in accordance with the Charter, to achieve an appropriate rate of return.

* The Fund balance as a percent of the estimated total funding required to recycle all eligible tires in Alberta, as of March 31, 2001, at current processing rates.



—H. G. Voss, 7/2/11

1997/98 Results: 15.2%

	Total	Surcharge Collection	Fund Management	Program Delivery	Admini- stration	Amorti- zation
1995/96 Results	10.6%	2.1%	0.0%	3.2%	5.1%	0.2%
1996/97 Results	14.5%	2.3%	0.0%	4.6%	7.5%	0.1%
1997/98 Results	15.2%	2.6%	1.2%	4.5%	6.4%	0.5%
(Target)	(18.2%)	(3.9%)	(1.4%)	(5.5%)	(7.0%)	(0.4%)
1998/99 Target	18.7%	3.7%	1.4%	5.8%	7.1%	0.7%
1999/00 Target	18.2%	3.6%	1.4%	5.7%	7.0%	0.6%
2000/01 Target	18.1%	3.6%	1.4%	5.6%	6.9%	0.6%

- The TRMA wants to ensure proper operation costs and effectiveness. The TRMA is responsible for funding a volatile, new and growing industry. It has also taken on additional operational requirements as a “DAO”. In this context, the TRMA has established realistic targets against which to monitor its operation costs in this new form of governance and environmental stewardship.



Tire Recycling Strategies

The following strategies have been developed and implemented by the TRMA as the mechanisms through which it achieves the Business Plan Goals.

1. *Tire Recycling Industry Incentives Program*

The *Tire Recycling Industry Incentives Program* provides performance-based incentives to Alberta companies, which successfully recycle eligible scrap tires (eligible scrap tires are those tires whose original intent is for highway use – off-road tires are not eligible). The program is backed by a \$20-million budgetary commitment. Incentives vary according to the type of processing, and are paid upon the approved sale or final use of recycled rubber material.

Incentives are available for the following types of processing:

- **Rubber processing** – processing of tires into rubber shred, crumb and end products, including some collection and shipping costs;
- **Alberta End Use** – incentives to help offset the incremental costs of using recycled tire material in civil engineering and similar uses;
- **Fabricated tire products** – manual fabrication of tires into end products such as composters, mats and planters.



2. *Tire Recycling Development Programs*

The *Tire Recycling Development Programs* are designed to help overcome the major barriers to growth in a new industry. Funding is through reimbursement of up to 50% of approved costs. The programs are backed by an annual commitment of \$1 million and are focused on three key areas:

- **Research and Development** – development of new tire recycling technologies;
- **Recycling Technology Upgrading** – improvements in the processing equipment and technology of operating tire recycling companies;
- **Business Development** – marketing and market development, product and production improvements for operating tire recycling companies.



3. *Stockpile Reduction Projects*

On an as-needed basis, the TRMA implements projects for the value-added processing of scrap tire backlogs in stockpiles.

4. *Scrap Tire Management*

An information system is maintained to track the flow of scrap tires and new tires on a regional basis in order to ensure that tires are being collected equitably, and to identify and correct inequities.

5. *Tire Recycling Information*

In order to support industry development and increase public awareness of tire recycling, the TRMA facilitates access to information on: tire recycling technologies and products; markets, economics and management; scrap tire flows and inventories; and tire management and funding policies.

6. Surcharge Collection and Compliance System

A comprehensive system is maintained to collect the Surcharge on a timely basis, including the registration of tire sellers, a remittance process, and a compliance and audit process to ensure and verify the completeness of revenue collection.

7. Financial Management System

A secure investment management process has been implemented to ensure the proper investment of the Tire Recycling and Management Fund.

An on-going financial management and accounting system is used to administer and report on revenues and expenditures.



VII. Board of Directors

Board of Directors

The 10 member associations of the Tire Recycling Management Association of Alberta appoint a representative to sit on the Board of Directors. Terms of appointments are for up to three years.

The 10 member associations and their representatives for the 1997/98 term were:

Alberta Association of Municipal Districts and Counties

Bruce Willerton (To December 1997)
Roelof Heinen (From January 1998)

Alberta Environmental Protection

Al Schulz (To December 1997)
Fred Schulte (From February 1998)

Alberta Trucking Association

Ken Albrecht, TRMA Chairman

Alberta Urban Municipalities Association

Lorne Olsvik

Association of Professional Engineers, Geologists & Geophysicists of Alberta

Ken Teare

Environmental Services Association of Alberta

Merv Domanko

Motor Dealers Association of Alberta

Jim Kallal

Recycling Council of Alberta

Wyn van der Schee

Toxics Watch Society of Alberta

Dan Smith

Western Canada Tire Dealers

Roger Ambrosie, TRMA Secretary/Treasurer

Standing Committees of the Board

To ensure the efficient and effective operations of the TRMA, the Board of Directors establishes standing committees where needed to carry out Board directions and make recommendations. The Chairman of the Board is an ad hoc member of all committees.

The following standing committees operated in fiscal 1997/98:

Executive Committee

To review budget, expenditures and related information; to recommend an Annual Budget; to advise on other issues as appropriate.

Ken Albrecht, *Chairman*
Roger Ambrosie
Ken Teare (To November 1997)
Dan Smith (From November 1997)

Investment Fund Management Committee

To oversee the administration of the Association's investment strategy and to monitor the performance of the investment managers.

Ken Albrecht, *Chairman*
Roger Ambrosie
Jim Kallal
Ken Teare
Bruce Willerton (To December 1997)
Roelof Heinen (From January 1998)

Audit Committee

To liaise with the Auditor and management on the preparation and review of the financial statements for recommendation to the Board of Directors.

Wyn van der Schee, *Chairman*
Merv Domanko
Lorne Olsvik

Assessment Committee

To hold assessment hearings for the purpose of assessing the amount of Advance Disposal Surcharge (ADS) that has not been remitted by retailers.

Lorne Olsvik, *Chairman*
Merv Domanko
Wyn van der Schee

In addition, the Board has established an ad hoc **Market Development Committee** to investigate value-added uses for recycled tire material and products.

Dan Smith, *Chairman*
Merv Domanko
Bruce Willerton (To December 1997)
Roelof Heinen (From January 1998)

VIII. Auditors' Report to the Members



KPMG
Chartered Accountants

10125 - 102 Street
Edmonton Alberta T5J 3V8 Canada

Telephone (403) 429-7300
Telefax (403) 429-7379
<http://www.kpmg.ca>

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of Tire Recycling Management Association of Alberta as at March 31, 1998 and the statements of revenue and expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Association as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Chartered Accountants

Edmonton, Canada

June 4, 1998



Member Firm of
KPMG International

IX. Financial Statements - Balance Sheet

As at March 31, 1998

	1998	1997
Assets		
Cash	\$ 1,738,262	\$ 2,573,108
Term deposits		17,286,156
Investment fund (note 3)	22,086,641	
Accounts receivable and prepayments (note 4)	1,277,205	1,311,843
Capital assets (note 5)	83,450	45,870
	<u>\$25,185,558</u>	<u>\$21,216,977</u>

Liabilities and Net Assets

Liabilities:

Payable to recyclers	\$ 329,610	\$ 317,342
Accounts payable and accrued liabilities	338,886	262,095
	<u>668,496</u>	<u>579,437</u>

Commitments (note 7)

Contingent liability (note 8)

Net assets (note 9):

Investment in capital assets	83,450	45,870
Unrestricted	24,433,612	20,591,670
	<u>24,517,062</u>	<u>20,637,540</u>
	<u>\$25,185,558</u>	<u>\$21,216,977</u>

See accompanying notes to financial statements.

On behalf of the Board:



Ken Albrecht, Chairman



Roger Ambrosie, Secretary Treasurer

Statement of Revenue and Expenditures

Year ended March 31, 1998

	1998	1997
	(5 1/2 months)	
Revenue:		
Advance disposal surcharges (note 4)	\$ 10,572,633	\$ 4,356,490
Surcharge collection costs (note 6)	(322,129)	(137,264)
	10,250,504	4,219,226
Investment income	1,409,473	331,084
Investment fund management costs (including start-up)	(146,697)	
	1,262,776	331,084
Total revenue	11,513,280	4,550,310
Expenditures:		
Scrap tire processing:		
Recyclers	5,800,265	2,668,013
Recycling development	469,629	643,587
Recycling program delivery (note 6)	533,547	227,652
	6,803,441	3,539,252
Administration:		
Board expenses (note 6)	217,630	101,126
Staff and contracted services compensation (note 6)	209,105	87,251
Professional fees	94,155	73,200
Consulting	103,964	67,478
Office support	116,411	43,483
Amortization of capital assets	61,894	6,077
Communication services	27,158	2,193
	830,317	380,808
Total expenditures	7,633,758	3,920,060
Revenue over expenditures	\$ 3,879,522	\$ 630,250

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 1998

	1998	1997
	(5 1/2 months)	
Sources of cash:		
Advance disposal surcharges collected	\$ 10,600,606	\$ 3,076,374
Investment income	1,422,371	318,186
Transfer of cash from Environmental Protection and Enhancement Fund		20,007,290
	12,022,977	23,401,850
Uses of cash:		
Surcharge collection costs	241,512	83,682
Investment fund management costs	112,028	
Scrap tire processing	6,810,492	3,154,562
Administration	793,832	252,395
Acquisition of capital assets	99,474	51,947
	8,057,338	3,542,586
Net increase in cash, term deposits and investment fund	3,965,639	19,859,264
Cash, term deposits and investment fund, beginning of year	19,859,264	
Cash, term deposits and investment fund, end of year	\$ 23,824,903	\$19,859,264

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 1998

1. Authority and purpose:

The Tire Recycling Management Association of Alberta ("the Association") was incorporated under the Societies Act of the Province of Alberta on October 3, 1996. As a not-for-profit organization, no provision for corporate income taxes has been provided in these financial statements pursuant to Section 149(1)(l) of the Income Tax Act. Pursuant to the Tire Recycling and Management Regulation, Alberta Regulation 206/96, the Association has been delegated responsibility to administer the Tire Recycling and Management Fund and to establish and administer a scrap tire waste minimization and recycling program for Alberta in accordance with sound environmental principles.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with such principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting periods. Actual results could differ from those estimates.

(a) Basis of presentation:

The Association bases its accounting policies on generally accepted accounting principles in Canada, specifically those comprising the accounting recommendations for not-for-profit organizations included in the Accounting Recommendations of the Canadian Institute of Chartered Accountants Handbook.

(b) Financial instruments:

The fair values of the Association's financial assets and liabilities approximates their carrying values unless otherwise disclosed in these financial statements.

(c) Investments:

Investments in pooled funds are recorded at cost. Pooled fund investments include money market, debt and equity based pooled funds which are widely held and diversified. Investment income on pooled funds is recognized when distributed by the fund. Other interest income is recognized when earned. A loss in value of an investment, other than a temporary decline, is recorded as an expense in the period that it is determined.

Notes to Financial Statements

Year ended March 31, 1998

2. Significant accounting policies (continued):

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on the straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment and software	3 years
Furniture and fixtures	5 years

3. Investment fund:

	Cost	Market Value
Investments held at March 31, 1998:		
Investment manager mandate:		
Balanced #1	\$ 9,639,275	\$10,064,145
Balanced #2	8,238,911	7,767,474
Foreign equity: United States	2,100,000	2,263,768
Foreign equity: Europe, Africa, Far East	2,107,911	2,240,690
Cash with custodian	544	544
	\$ 22,086,641	\$22,336,621

The balanced #1 mandate is to purchase and hold investments with value that will grow over time. The balanced #2 mandate is to time purchasing and selling investments with regard to fluctuations in the market.

The market value of pooled funds at March 31, 1998 represents the year end quoted unit values that are based on the net asset market values of the funds.

4. Collection of advance disposal surcharges:

The Tire Recycling and Management Regulation, Alberta Regulation 206/96 requires retail registrants to remit to the Association an advance disposal surcharge on prescribed new tires sold. Revenue is recognized by the Association at the time tires are sold. Included in accounts receivable and prepayments is management's estimate of advance disposal surcharges which should have been or have been collected by retail registrants but not yet reported to the Association of \$170,000 (1997 - \$20,360). The estimate is based primarily upon average monthly remittances and the number of months not reported.

Notes to Financial Statements

Year ended March 31, 1998

5. Capital assets:

		1998		1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	\$ 118,218	\$ 56,103	\$ 62,115	\$ 31,612
Furniture and fixtures	32,968	11,633	21,335	14,258
	\$ 151,186	\$ 67,736	\$ 83,450	\$ 45,870

6. Compensation:

As required under the Tire Recycling and Management Regulation, Alberta Regulation 206/96, the remuneration and benefits paid to all members of the board of directors (on an individual basis by name) and to all management personnel who report directly to one or more members of the board of directors (on an aggregate basis) are as follows:

	1998	1997
	(5 1/2 months)	
Board of directors' compensation (included in board expenses):		
Mr. Ken Albrecht (Chairman)	\$ 42,486	\$ 21,486
Mr. Roger Ambrosie	6,093	4,355
Mr. Merv Domanko	9,020	3,168
Mr. Roelof Heinen (From January 1998)	1,850	
Mr. Jim Kallal	10,303	3,419
Mr. Lorne Olsvik	19,472	7,461
Mr. Fred Schulte (From February 1998)		
Mr. Al Schulz (To December 1998)		
Mr. Dan Smith	10,829	3,638
Mr. Ken Teare	7,638	2,726
Mr. Wyn van der Schee	8,968	4,126
Mr. Bruce Willerton (To December 1998)	7,028	3,365
	\$ 123,687	\$ 53,744

Executive director compensation (allocated between
recycling program delivery and staff and contracted
services compensation)

	\$ 88,725	40,746
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Notes to Financial Statements

Year ended March 31, 1998

7. Commitments:

- (a) The Association has a contract with a private sector company to February 2004 to collect and recycle Medium Truck Tires throughout Alberta, based on scrap tires processed and sold as recycled rubber crumb or product. The Association has an annual exit option on this contract commencing February 2001. The maximum annual payments under this contract are \$2,886,000.
- (b) The board of directors has approved twenty million dollars for a Tire Recycling Incentives Program to March 1999. This program provides for a per-tire incentive to Alberta businesses which process and sell recycled rubber products. Total expenditures under this program to March 1998 are \$12,910,000 (1997 - \$8,249,526).
- (c) The board of directors has approved one million dollars annually for a Tire Recycling Development Program. The program provides a series of support programs designed to increase the commercial possibilities and competitiveness of Alberta's emerging tire recycling industry. In February 1997, the Association entered into an agreement to provide funding of up to \$231,400 for a project to research the use of rubber crumb in asphalt mixes. To March 1998, \$123,000 (1997 - \$67,000) had been expended on the project. In February 1998, the Association approved an \$82,000 project to research civil engineering applications for shred and waste steel. To March 1998, \$56,000 had been expended on the project.
- (d) In March 1997, the Association approved funding of \$117,275 (in addition to a previously approved budget of \$285,000) to continue an education program designed to promote the reduction of tire consumption in Alberta. To March 1998, \$223,000 had been expended on the project.
- (e) Under the terms of a financial service and a use agreement expiring December 1998, the Association is charged a fee for provision of financial administration services of the chief financial officer, various staff and for the lease of office space. The minimum payments required under these agreements are as follows:

Financial Service	Facilities	Total
\$ 209,000	\$ 23,500	\$ 232,500

Notes to Financial Statements

Year ended March 31, 1998

8. Contingent liability:

During the year ended March 31, 1998, the Association made payments to recyclers and for recycling development of approximately \$6,626,000 (1997 - \$3,310,000). The Association has taken the position that these payments are not consideration for a supply and accordingly, the goods and services tax has not been paid nor accrued on such payments. The Association has requested a ruling from Revenue Canada concerning the applicability of goods and services tax on these payments. Any goods and services tax liability arising from this ruling will be accounted for in the period the ruling is received from Revenue Canada.

9. Changes in net assets:

	1998			1997 (5 1/2 months)
	Capital assets	Unrestricted	Total	Total
Net assets, beginning of year	\$ 45,870	\$ 20,591,670	\$ 20,637,540	
Revenue over expenditures		3,879,522	3,879,522	\$ 630,250
Amortization of capital assets	(61,894)	61,894		
Investment in capital assets	99,474	(99,474)		
Transfer from Environmental Protection and Enhancement Fund				20,007,290
Net assets, end of year	\$ 83,450	\$ 24,433,612	\$ 24,517,062	\$ 20,637,540



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